A QUARTERLY PUBLICATION ON ACCOUNTING & AUDITING MATTERS

CLARITY

AUGUST
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ASIC SHARPENS GOVERNANCE RULES.

ISSUE HIGHLIGHTS:

30 June 2015 accounting-standards changes

ACNC round-up

Auditors' report proposals affect boards and management too

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Contents

Welcome

Welcome to the 2015 August Edition of Clarity.

To enhance the decision making of boards and management, Clarity will be distributed quarterly.

This edition includes financial reporting, corporate governance and regulatory topics to inform and assist CFOs and directors in the discharge of their responsibilities and to help manage their business risks. Specifically, we focus on accounting standards and related developments for the 30 June reporting season - ASIC targets, new standards, and revised corporate governance rules for listed entities.

We also reviewed the proposed new audit reporting requirements that will affect all stakeholders in the financial reporting chain including how we communicate with the Board.

We wish to acknowledge the assistance of GAAP Consulting with the development of this publication.

We look forward to working with you on the challenges ahead.

DIRECTORS TAKE NOTE – ASIC'S 30 JUNE 2015 TARGETS

ASIC has announced its focus areas for 30 June 2015 financial reports for listed entities and other entities of public interest with many stakeholders. ASIC stressed that directors and auditors should continue to focus on values of assets and accounting policy choices.

ASIC noted that it continues to see instances where companies have used unrealistic assumptions in testing the value of assets or have applied inappropriate accounting choices in areas such as revenue recognition.

Preparers and auditors should carefully consider the need to impair goodwill and other assets. ASIC continues to find impairment calculations that use unrealistic cash flows and assumptions, as well as material mismatches between the cash flows used and the assets being tested for impairment.

Fair values attributed to financial assets should also be based on appropriate models, assumptions and inputs.

Particular focus should be given to assets of companies in extractive industries and mining support services, as well as asset values that may be affected by digital disruption.

Preparers and auditors should focus on the appropriateness of key accounting policy choices that can significantly affect reported results. These include off-balance sheet arrangements, revenue recognition,

Fair values attributed to financial assets should also be based on appropriate models, assumptions and inputs.

expensing of costs that should not be included in asset values, and tax accounting.

ASIC's surveillance continues to focus on material disclosures of information useful to investors and others using financial reports, such as assumptions supporting accounting estimates, significant accounting policy choices, and the impact of new reporting requirements.

ASIC notes that even though directors do not need to be accounting experts, they should seek explanation and professional advice supporting the accounting treatments chosen if needed and, where appropriate, challenge the accounting estimates and treatments applied in the financial report. Directors should particularly seek advice where a treatment does not reflect their understanding of the substance of an arrangement. Further information can be found in ASIC Information Sheet 183 'Directors and financial reporting'.

Watch for an information sheet on impairment of non-financial assets that ASIC intends to issue before 30 June.

Finally, ASIC will continue to review the financial reports of proprietary companies and unlisted public companies based on complaints and other intelligence. ASIC will also proactively identify and follow up companies that are required to lodge financial reports with ASIC but have not done so.

30 JUNE 2015 ACCOUNTING STANDARDS CHANGES

The 30 June reporting period will be relatively quiet for profit-seeking entities in contrast to 2014. Only a small number of amended standards and a new interpretation will be effective for the first time. But the story is slightly different for not-for-profit (NFP) private and public-sector entities that face the 'consolidation' challenge.

The new and amended reporting requirements include:

Materiality guidance: AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part B)'and AASB 2014-1 Amendments to Australian Accounting Standards (Part C – Materiality) make amendments to particular Australian accounting standards to delete references to AASB 1031 and remove quantitative guidance for materiality (so called 'bright lines' of 5 per cent and 10 per cent materiality considerations) as well as an NFP materiality guidance

But the story is slightly different for not-for-profit (NFP) private and public-sector entities that face the 'consolidation' challenge.

- **Consolidation exemption for investment entities:** Amendments to AASB 10 'Consolidated Financial Statements' introduce an exemption from consolidation of subsidiaries for entities that meet the definition of an investment entity
- **Offsetting criteria for financial assets and financial liabilities:** Amendments to AASB 132 'Financial Instruments: Presentation' clarifies the requirements relating to the offset of financial assets and financial liabilities
- **Additional disclosures on recoverable amounts for non-financial assets:** Amendments to AASB 136 'Impairment of Assets' remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) under certain circumstances. There are some additional disclosure requirements applicable where the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal

- **Clarification on the continuation of hedge accounting for novation of derivatives:** Amendments to AASB 139 'Financial Instruments: Recognition and Measurement' provide relief for discontinuation of hedge accounting when a derivative is novated in certain circumstances, in addition to clarification on the treatment of changes in fair value for such instruments
- **Annual improvements 2010-2012 and 2011-2013 cycles:** AASB 2014-1 'Amendments to Australian Accounting Standards Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles' make various amendments to Australian standards, including AASB 8 'Operating Segments', AASB 119 'Employee Benefits', and AASB 124 'Related Party Disclosure'
- **Defined benefit plans employee contributions (amendment to AASB 119):** AASB 2014-1 'Amendments to Australian Accounting Standards Part B' clarifies accounting treatment in relation to contributions that are independent from years of service
- **Clarification of the recognition of a liability to pay a levy imposed by a government**: Interpretation 21 'Levies' discusses the definition of a levy and the recognition of a liability to pay a levy in reference to triggering events and circumstances.

All of the amending standards and the new interpretation generally require full retrospective application (that is, comparative amounts have to be restated), some amendments providing specific transitional provisions.

The following standards apply to NFP private and public-sector entities for the year ending 30 June:

- AASB10 'Consolidated Financial Statements'
- AASB11 'Joint Arrangements'
- AASB12 'Disclosure of Interests in Other Entities'
- AASB 127(revised) 'Separate Financial Statements'
- AASB 128(revised) 'Investments in Associates and Joint Ventures'
- AASB2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'
- AASB2012-10 'Amendments to Australian Accounting Standards-Transition Guidance and Other Amendments'
- AASB2013-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not- for-Profit Entities-Control and Structured Entities (AASB10, AASB 12 & AASB 1049)'.

SEVEN ASIC-INSPIRED CORPORATE RESTATEMENTS

From 1 July 2014, ASIC commenced public disclosure of corporate restatements of results arising from its surveillance activities. Since December, ASIC has announced the following:

$4.3 million impairment charge: ASX-listed GoConnect Limited recognised a $4.3 million impairment charge to goodwill in its results for the half-year ended 31 December 2014 following ASIC's inquiries. The Commission questioned whether the assumptions used in the calculation of the recoverable amount of the goodwill assets were reasonable and supportable.

The cash flows generated from the acquired businesses have not been sufficient to produce a value-in-use that is higher than the carrying amount of the goodwill assets. The company relied on a fair-value calculation to produce a recoverable amount that exceeded the carrying amount of goodwill assets. However, ASIC did not consider that there was sufficient evidence to support a fair-value measurement of the goodwill assets.

Goodwill reduced by $426.2m: ASX-listed Primary Health Care Limited has reduced goodwill previously recorded for payments it made to general practitioners when they joined its network of medical clinics.

Following ASIC's inquiries, Primary has determined that, while a portion of payments will continue to be accounted for as goodwill, a significant majority of them will be treated as intangible assets and amortised over the life of the relevant contract, generally for five years.

Primary has now reduced goodwill by $426.2 million as a prior period adjustment in its results for the half-year ended 31 December 2014. The goodwill has been replaced by an identifiable intangible asset with an amortised amount of $139.9 million. Retained profits have been reduced by $290.4 million, representing past amortisation.

Impaired mining assets by $310m: In its financial report for the half-year ended 31 December, Resolute Mining Limited impaired its Syama Mine by $310 million. ASIC had previously made enquiries regarding the value of the mine as part of its financial-reporting surveillance program. The Commission had raised several concerns with Resolute, including the need for valuation cross-checks and the use of announced ore reserves in impairment-testing models.

Resolute conducted its impairment testing to take into account events that had occurred in the six months ending 31 December, and has made several adjustments to assumptions and a valuation technique that gave rise to an outcome consistent with other information based on its announced ore reserves.

$2.15m impairment charge: In its financial report for the half-year ended 31 December, ASX-listed Greenearth Energy Limited has made a $2.15 million impairment charge relating to its geothermal operations. ASIC reviewed the company's financial report for the year ended 30 June 2014 as part of its surveillance program, questioning the company on the carrying value of the exploration and evaluation assets of its geothermal operations.

Tax-effect accounting errors: ASX-listed Tribune Resources Limited restated comparative balances in its financial report for the half-year ended 31 December as a result of errors in its tax accounting to 30 June 2014. As a result of ASIC's inquiries, Tribune carried out an extensive review of its tax position and identified the following errors:

- Overstated deferred tax liability for an investment in a controlled entity of $2.8 million that should have been eliminated on consolidation
- Understated deferred tax liability relating to mine development assets of $2.4 million
- Overstated current income tax provision from the year ended 30 June 2011 of $3.9 million.

Reclassification of $2.1m expenses: ASX-listed Minemakers Limited reclassified expenses of $2.1 million in its financial report for the half-year ended 31 December 2014. The company reclassified prior-year impairment losses on an unlisted investment from a reserve to accumulated losses.

ASIC contended that there was objective evidence of a significant decline in the fair value of the unlisted investment, classified as available-for-sale, that Minemakers had accounted as reductions in a reserve.

Revenue corrected by $5.8m: Balanced Securities Limited, a secured note issuer and mortgage lender, re-lodged its 30 June 2014 financial report, which corrected an overstatement of revenue reported for the year ended 30 June 2013. The company has also issued a supplementary prospectus referring to the correction.

ASIC's review of Balanced Securities' 30 June 2014 financial report identified that $5.8 million of revenue had been incorrectly recognised in the 30 June 2013 financial year when it should have been accrued in the previous year. ■

REVISED ASX CORPORATE-GOVERNANCE PRINCIPLES FOR 30 JUNE

The ASX Corporate Governance Council's revised 'Corporate Governance Principles and Recommendations' (third edition) operate for the 30 June reporting period.

There are nine new recommendations:

Prospective directors: Appropriate checks should be undertaken before appointing a person or putting forward to security holders a candidate for election as a director. Security holders should have all relevant material information about decisions on whether or not to elect or re-elect a director (Recommendation 1.2)

Contracts with directors and senior executives: There should be a written agreement with each director and senior executive setting out the terms of his or her appointment (Recommendation 1.3)

Company secretary: The company secretary should be accountable direct to the board through the chair on all matters to do with the proper functioning of the board (Recommendation 1.4)

Training: There should be a program for the induction of new directors and the provision of appropriate professional-development opportunities for directors to develop and maintain their skills and the knowledge needed to perform their roles effectively (Recommendation 2.6)

Annual general meeting: The external auditor should attend the AGM and be available to answer questions from security holders relevant to the audit (Recommendation 4.3)

Website: Information about the entity and its governance should be available to investors via its website (Recommendation 6.1)

Electronic communication: Security holders should be given the option to receive communications from, and send communications to, the entity and its security registry electronically (Recommendation 6.4)

Internal audit function: If the entity has an internal audit function, disclosure should be made of how the function is structured and what role it performs. If the entity does not have an internal audit function, the processes used to evaluate and improve the effectiveness of its risk management and internal control processes should be disclosed (Recommendation 7.3), and

Material exposures: The entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, explain how it manages those risks (Recommendation 7.4).

CEO/CFO certification of financial statements (Recommendation 7.3) in the second edition has been upgraded and moved to Recommendation 4.2 in the third edition. The revised recommendation states that the board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion:

- The financial records of the entity have been properly maintained and that the financial statements comply with appropriate accounting standards and give a true and fair view of the financial position and performance of the entity, and
- The opinion has been formed on the basis of a sound system of risk management and internal control that is operating effectively.

Unlike recommendation 7.3, this will apply to financial statements for any reporting period and not just to year-end financial statements.

GOVERNANCE-RELATED ASX LISTING RULE AMENDMENTS

Under the modified listing rule 4.10.3, a listed entity will be able to include its corporate governance statement either in its annual report or on its website. If the entity discloses its statement on its website, its annual report will need to include the URL of the page where the statement may be found.

The amendments to rule 4.10.3 'If Not, Why Not Disclosures' make it clearer what an entity should disclose if it has not followed a recommendation of ASX's Corporate Governance Council for any part of the reporting period. The modified rule requires the entity to disclose the following information:

- The recommendation that has not been followed
- The period during which the recommendation was not followed
- The reasons for not following the recommendation
- What (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under the modified listing rule 4.10.3, a listed entity will be able to include its corporate governance statement either in its annual report or on its website.

Under new listing rule 4.7.3, regardless of whether an entity chooses to include its corporate governance statement in its annual report or on its website, it must lodge with ASX a completed appendix 4G 'Key to Disclosures Corporate Governance Council Principles and Recommendations' at the same time as it lodges its annual report with the exchange. The Appendix 4G provides a key to where the various disclosures suggested in the recommendations or required under listing rule 4.10.3 can be found.

Under new Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement under rule 4.10.3 on its website rather than in its annual report, it must lodge a copy of the statement with ASX at the same time as it lodges its annual report. The corporate governance statement must be current. ■

ACNC ROUND-UP

It has been busy at the ACNC and there are many developments that affect the boards and management of charities. In summary, the Commission has:

Reporting

- Published Commissioner's Interpretation Statements on the provision of housing by charities and health-promotion charities
- Started reviewing samples of 2014 annual information statements and financial reports (for medium and large charities) to identify material errors or anomalies
- Announced that non-government schools will not have to provide any financial information direct to the ACNC for the 2014 and 2015 reporting periods as the ACNC will extract relevant data from Department of Education and Training financial questionnaires

Compliance

- Announced that 6000 'double defaulter' charities were at risk of losing registration and access to Commonwealth tax concessions for failing to meet their reporting obligations for two consecutive years
- Made decisions to revoke the charity status of several charities and issued its first enforceable undertaking to improve a charity's governance
- Released 'Charity Compliance Report: December 2012 – December 2014 and Beyond'
- Continued to 'clean-up' the national charity register by revoking the charity status of thousands of organisations that the regulator believed were no longer operating
- Reminded NFPs to take the 'ACNC charity health check' to assess how well charities were meeting their obligations, and to check whether their subtype was up-to-date on the charity portal

Information tools

- Provided additional guidance for companies limited by guarantee and new information on merging or winding up a charity, or changing its legal structure
- Developed a template for a governing document for charities (for example, small religious congregations) that might not have their own governing documents but instead use statutes (Acts of parliament) or canon law (church law) for this purpose
- Published a checklist and guidance to help charities avoid financing terrorist activity
- Published guidance to help non-government schools report to the ACNC under the new reporting arrangements
- Published a resource page for Aboriginal-and-Torres Strait Islander-controlled charities at acnc.gov.au/indigenous.

It has been busy at the ACNC and there are many developments that affect the boards and management of charities.

The ACNC registered its 6,000th charity since establishment in December 2012, bring the total number of charities registered to over 54,000.

Minister Scott Morrison has signalled that he will not make scrapping the ACNC a priority in his new Social Services portfolio. The federal budget contained funding for the ACNC for the next four years.

The Department of Social Services has released a discussion paper 'Proposed changes to financial and prudential reporting requirements for residential and home care'. The discussion paper outlines the structure of the proposed Comprehensive Financial Report (CFR), which is proposed to consolidate and replace the current financial-reporting framework for residential and home-care providers.

RELATED-PARTY DISCLOSURE AMENDMENTS

The AASB has issued amendments to extend the scope of AASB 124 'Related Party Disclosures' to include not-for-profit (NFP) public-sector entities. The key impact of the amendments is to specify consistent related-party disclosure requirements for federal and state governments, local councils and other NFP public-sector entities.

The amendments, described in AASB 2015-6 'Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities', apply to annual reporting periods beginning on or after 1 July 2016. Comparative disclosures are not required in the first year of application of the amendments.

The amendments to AASB 124 will ensure that public-sector entities with related-party transactions are subject to the same disclosure requirements as the private sector.

INCOME OF NFP ENTITIES PROPOSALS

The AASB invites comments on ED 260 'Income of Not-for-Profit Entities', which proposes guidance to help NFPs to apply the principles of AASB 15 'Revenue from Contracts with Customers'.

It will replace standard AASB 1004 'Contributions', including income-recognition requirements for donations, grants, taxes and similar transactions. ■

EMPLOYEE BENEFITS – CORPORATE BOND RATE APPLIES

There is evidence of a sufficiently observable, deep and liquid market in high-quality Australian corporate bonds that satisfies accounting requirements, according to 'Discount rates for employee benefit liability valuation', a research report by Milliman Australia. Australian entities must use corporate rather than government bond rates to discount post-employment benefits and other long-term employee liabilities (such as long-service leave) under AASB 119 'Employee Entitlements'.

The Group of 100 (in conjunction with the Actuaries Institute of Australia) commissioned Milliman to undertake research in relation to the Australian corporate bond market. It concluded that Australia had a deep enough corporate bond market for the purposes of AASB 119's measurement requirements. Up until now, entities have been using the government bond rate, which is the default measurement position under AASB 119 in the absence of a deep market. AASB 119 requires that corporate rates be used by all entities (except public-sector not-for-profits) to discount these liabilities.

By using the new discount rates rather than the government rate, companies will be able to reduce their employee liabilities and, in most cases, their expense. This change will benefit businesses of all sizes but will have the biggest impact on companies with many employees and those with defined-benefit superannuation funds.

The discount rates for the year ended 30 June 2015 are available on both the Milliman Australia's website (http://au.milliman.com) and G100 website (www.group100.com.au).

Apart from the calculations, don't forget to change your accounting policies note!

EFFECTS OF BRINGING LEASES ONTO BALANCE SHEETS

The International Accounting Standards Board (IASB) is finalising a new International Financial Reporting Standard (IFRS) that will require companies to bring leases onto balance sheets. The board has published a document outlining the likely practical effects of the new standard, as well as details on the similarities and differences between the IASB's requirements and those of the US Financial Accounting Standards Board.

The main change will involve an increase in balance sheet assets and liabilities for companies that have many leases not already recorded on balance sheets. The move is expected to improve the transparency of a company's leverage and asset base.

As well as balance-sheet changes, the new standard is likely to result in important differences on stated incomes. Among them is the reporting of higher operating profits compared with the present requirements. There will be no changes to total cash flows but, in cash-flow statements, the amount of operating cash will increase while the amount of financing cash will decrease.

The document also looks at other potential implications of the 'leases' accounting model, such as the possible impact on the cost of borrowing. It asserts that the new standard will provide more transparent information about a company's financial commitments, but does not change them.

The IASB's deliberations on the new model should be complete for the final standard to be issued later this year.

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REVENUE-STANDARD'S EFFECTIVE DATE DEFERRAL LIKELY

The IASB and AASB issued an exposure drafts proposing a one-year deferral of the effective date of the revenue standard to 1 January 2018. The new standard IFRS 15 'Revenue from Contracts with Customers' (AASB 15) was issued jointly by the IASB and the US Financial Accounting Standards Board (FASB) in May 2014 with an effective date of 1 January 2017. The standard's early application would still be permitted.

The IASB is planning to issue an exposure draft with proposed clarifications to the standard that stem from the joint Transition Resource Group meetings. The international body also wanted to align its revised standard with the FASB's.

FINANCIAL REPORTING RELIEF FOR 'TROUBLED ENTITIES'

ASIC has released regulatory guide 174 'Relief for externally administered companies and registered schemes being wound up'. The guide describes when ASIC will give relief from the financial reporting provisions of the Corporations Act 2001 to externally administered companies and to registered managed investment schemes being wound up. It also describes when ASIC will give relief to externally administered public companies from the requirement to hold an annual general meeting.

ASIC has issued a new legislative instrument 'ASIC Corporations (Externally-Administered Bodies) Instrument 2015/251', which provides companies with a liquidator appointed with an exemption from financial reporting and, if the company is also a public company, with AGM relief in certain circumstances. Companies in other forms of external administration with an uncertain future are permitted to delay preparing their financial reports under ASIC's relief. The instrument also provides relief from financial reporting to insolvent-registered managed-investment schemes.

To provide information to members of such schemes, the instrument requires those in charge of the winding up to report periodically to members and creditors by making certain information available. For externally administered companies, the law already requires that members and creditors have access to certain public information that is prepared periodically by the external administrator and lodged with ASIC. ■

COMPLIANCE CONCERNS

CEO CHARGED WITH FRAUD

The former CEO of collapsed debenture issuer Wickham Securities Ltd has faced court charged with various offences, including fraud, following an ASIC investigation. Wickham Securities was placed in administration in December 2012 and liquidation in February 2013. It collapsed owing more than $27 million to about 300 debenture holders.

Garth Peter Robertson appeared in the Brisbane Magistrates Court charged with 10 counts of fraudulently obtaining more than $760,000 from Wickham Securities between December 2010 and November 2012. Mr Robertson was charged with a further count of fraudulently obtaining $15,000 from Balmain NB Corporation Limited in November 2010.

He was charged with nine counts of giving or permitting the giving of false information about Wickham Securities to its trustee, Sandhurst Trustees Ltd, and one count of falsifying books relating to the affairs of Wickham Securities in 2012.

Mr Robertson was not required to enter a plea and was bailed.

AUDITORS' REPORT PROPOSALS AFFECT BOARDS AND MANAGEMENT TOO

The Auditing and Assurance Standards Board (AUASB) proposes to revise and amend five standards and issue a new one on 'Key Audit Matters' (KAMs). Eight other standards contain consequential amendments. Audit reporting will be never the same. Governance and management will be surprised as changes have implications for you.

The amendments will match recent changes by the International Auditing and Assurance Standards Board (IAASB) that are aimed at promoting enhanced auditor reporting throughout the world. The proposed new and revised standards lay the foundation for the future of global auditor reporting and improved auditor communications.

Audit reporting will be never the same. Governance and management will be surprised as changes have implications for you.

Consistent with counterpart international standards, the new and revised Australian standards will be effective for audits of financial statements for periods ending on or after 15 December 2016.

They represent significant changes of practice. Collaboration by all participants in the financial-reporting supply chain will be needed to ensure that the objectives of enhanced auditor reporting are realised.

The proposed revised standards are:

- ASA 700 'Forming an Opinion and Reporting on a Report'
- ASA 705 'Modifications to the Opinion in the Independent Auditor's Report'
- ASA 706 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report'
- ASA 570 'Going Concern', and
- ASA 260 'Communicating with Those Charged with Governance'.

The proposed new standard is ASA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'. The most notable enhancement is the new requirement for auditors of listed entities to communicate Key Audit Matters, that is, matters that the auditor views as most significant, with an explanation of how they are addressed in the audit.

The introduction of KAMs is a significant enhancement that will change not only the auditor's report but more broadly the quality of financial reporting, and, therefore, the informative value to investors and other key stakeholders such as analysts.

The AUASB has also taken steps to increase auditors' focus on going concern matters, including disclosures and transparency about an auditor's work. These apply to all financial statement audits.

Enhanced auditor reporting on going concern including:

- Description of the respective responsibilities of management and the auditor for going concern
- A separate section when a material uncertainty exists, and is adequately disclosed, under the heading 'Material Uncertainty Related to Going Concern' (previously included in an Emphasis of Matter paragraph)
- New requirement to challenge the adequacy of financial report disclosures for so-called 'close calls' in view of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern.

Other proposed changes include:

- Affirmative statement about the auditor's independence and fulfilment of relevant ethical responsibilities and the identification of relevant Australian ethical requirements
- Enhanced description of the auditor's responsibilities and key features of an audit. Certain components of this description may be presented in an appendix.

Changes in the pipeline are the revision of ISA/ASA 720 (an auditor's responsibilities for other information), the disclosures project, and consequential changes to special-purpose reporting standards (ISA/ASA 800 series). Further tranches of AUASB exposure drafts are expected to be issued in July, the ISA/ASA 800 series is due in early 2016.

We look forward to explaining these proposals further as part of ongoing client communication process.

YOUR 'OTHER INFORMATION' IN THE ANNUAL REPORT TO GET MORE AUDIT SCRUTINY

The IAASB has released a revised standard ISA 720 'The Auditor's Responsibilities Relating to Other Information'. The standard and its related conforming amendments to other ISAs aims to clarify and enhance an auditor's focus on 'other information' included in entities' annual reports to ensure that it is not materially inconsistent with audited financial statements. It also includes new requirements that complement recently announced changes to new and revised auditor reporting standards.

This proposed standard will apply to all financial statement audits.

The standard and its related conforming amendments will be adopted by the AUASB and modified only when there are compelling reasons, such as accommodating Australian legislative requirements.

Concurrent with the auditor reporting standards, ASA 720, once finalised, will be effective for financial reporting periods ending on or after 15 December 2016.

The IAASB has changes in the pipeline related to the disclosures projects, and consequential auditor reporting related changes to the special purpose reporting standards (ISA 800 and ISA 805). The IAASB is expected to progressively release the changes during this year.

NEW RULES FOR PROVIDING ASSURANCE ON YOUR CONTROLS

A new standard on assurance engagements ASAE 3150 'Assurance Engagements on Controls' has been issued by the Auditing and Assurance Standards Board (AUASB). It provides requirements, application and other explanatory material for the acceptance, planning, conduct and reporting of assurance engagements on controls.

ASAE 3150 is operative for assurance engagements commencing on or after 1 January 2016. The proposed standard replaces existing standard AUS 810 'Special Purpose Reports on the Effectiveness of Control Procedures'.

ASAE 3150 requires the assurance practitioner to conclude on the suitability of the design of controls to achieve identified control objectives for every engagement. An assurance practitioner may be engaged to conclude either at a specified date, on the fair presentation of the description of the system and/or implementation of controls as designed, or throughout the period, on the fair presentation of the description of the system and/or operating effectiveness of controls as designed.

ASAE 3150 applies to both reasonable and limited assurance engagements, as well as both direct engagements, where the assurance practitioner evaluates the controls, and attestation engagements, where the responsible party, usually on behalf of the entity, evaluates the controls and produces a statement.

We undertake a number of assurance engagements on controls. In the forthcoming months, we will be explaining the requirements of ASAE 3150 to clients affected and revisiting the terms of those engagements.

APRA'S RISK-MANAGEMENT PRUDENTIAL STANDARD

The Australian Prudential Regulation Authority (APRA) has released the final version of its new risk-management standard and associated guidance. The package includes final versions of prudential standard CPS 220 'Risk Management' and prudential practice guide CPG 220 'Risk Management'.

The new requirements are applicable to authorised deposit-taking institutions (ADIs), general insurers and life companies, and authorised non-operating holding companies (authorised NOHCs) and take effect from 1 January 2015.

The standard, which amalgamates several forerunners, harmonises risk-management requirements across the banking and insurance industries. It reflects APRA's heightened expectations about risk management and an increased emphasis on sound governance and robust risk management practices in response to the global financial crisis. ■

RISK MANAGEMENT BY RESPONSIBLE ENTITIES – ASIC ENQUIRES

ASIC is investigating several responsible entities of registered managed-investment schemes regarding their risk management practices. In particular, the Commission is looking at fixed-income, exchange-traded and other funds that might experience liquidity issues when the market is volatile.

The enquiries are a pro active response to increased global and domestic market volatility. They aim to examine the adequacy of risk management and disclosure practices in these market conditions. ASIC wants to ensure that responsible entities are adequately positioned to manage these risks.

> ***ASIC wants to ensure that responsible entities are adequately positioned to manage these risks.***

ASIC will remind responsible entities of their obligations and ask them to provide information about the adequacy of arrangements addressing risk.

Effective management of these issues leads to less risk being borne by investors. All responsible entities must have a sound and tested risk management strategy in place. Failing to manage risks can have serious implications, including adverse effects on the liquidity of funds.

The enquiries remind financial services licensees to have adequate risk management systems. In 2013, ASIC published Consultation Paper 204 'Risk management systems of responsible entities', which proposed guidance based on responsible entities' current practices. ASIC's final policy position is under consideration. The Commission has advised responsible entities that they should continue to ensure that adequate risk management systems are in place to comply with their obligations.

ASIC CANCELS AFS LICENCE

ASIC has cancelled the Australian Financial Services (AFS) licence of TCI Capital Advisers Pty Ltd (TCI) following concerns that it failed to comply with its obligations. Melbourne-based TCI provided investment advice, assistance and research to wholesale clients such as multinational corporations and institutional investment funds.

ASIC cancelled the licence after TCI management failed to ensure that the company had adequate financial resources to provide its services. TCI also failed to lodge audited financial accounts for financial years 2010-2014 within the required timeframe and failed to report the breach to ASIC.

MORE ASIC LICENCE CANCELLATIONS AND ENFORCEMENTS

ASIC has cancelled four AFS licences following failure to lodge audited annual statements. The cancellations follow ASIC's most recent proactive review of the conduct of 14 licensees in the financial advice industry that had failed to lodge audited annual statements.

As well as the cancellations, ASIC has:

- Suspended an AFS licence for the licensee's failure to lodge audited annual statements until the outstanding documents were lodged
- Achieved the voluntary compliance of seven AFS licensees that have lodged outstanding documents, and
- Prompted two entities to cancel voluntarily their AFS licences because they were no longer operating financial services businesses.

The requirement to lodge annual audited accounts is an important one. Through it, the licensee can demonstrate that it has adequate financial resources to provide the services covered by its licence and to conduct its business in compliance with the Corporations Act.

Deputy Chairman Peter Kell said: "In our experience, a licensee's failure to comply with reporting obligations can indicate a poor compliance culture. After our last review, ASIC warned licensees that their failure to lodge audited annual statements may result in the cancellation or suspension of their AFS licences and we are disappointed that some licensees do not seem to be heeding this message. Be clear, ASIC will continue to contact AFS licensees who have not lodged audited financial statements and take action where they fail to lodge these statements." ■

PKF

ABOUT PKF

PKF brings clarity to business problems with simple, effective and seamless solutions that break down barriers for sustainable growth.

PKF Australia firms are members of the PKF International Limited (PKFI) network of legally independent firms. With almost 300 member firms and correspondents across 440 locations in around 125 countries, PKFI is the 12th largest global accountancy network.

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